



## June 2026 Capital Markets Commentary

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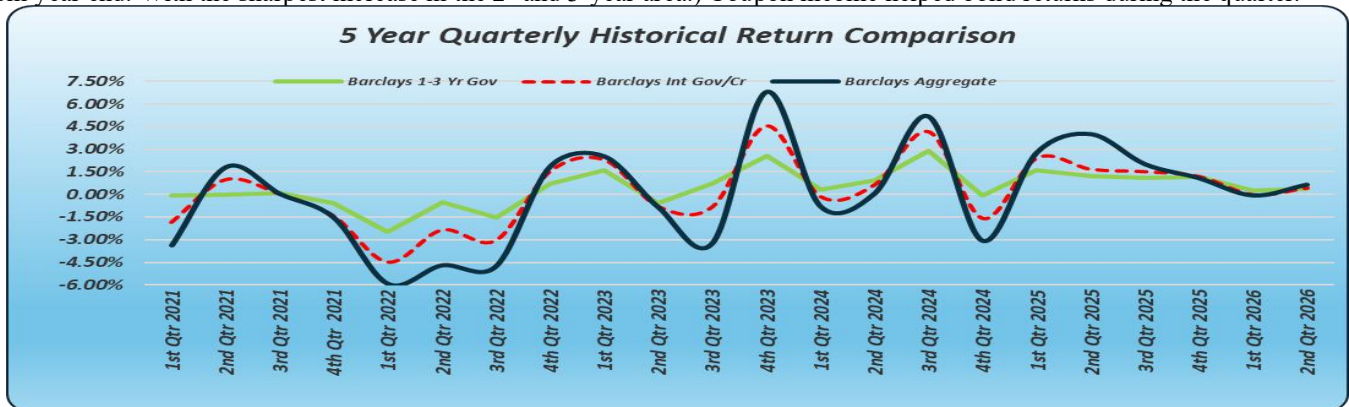
“Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria ”

Sir John Templeton

### Fixed Income

A new quarter, same market tone. Fixed Income returns during the 2<sup>nd</sup> quarter of 2026 ended slightly positive. This quarter continues to be characterized by geopolitical tensions – due to U.S. tariffs, emigration tensions in the U.S., the continued turmoil between Russia and Ukraine, and global inflation problems caused by military action against Iran by Israel and the U.S. The Fixed Income markets continued to have high volatility, but no real change. U.S. government bond yields did move up during the quarter, mostly on the short end of the curve. Consumer prices rose by 0.5% in May, resulting in a year-over-year increase of 4.2%. Most of this gain was due to a 7.0% jump in gasoline prices. Currently, there is little evidence that higher inflation is feeding through to higher wages. Despite a relatively tight labor market with an unemployment rate of 4.3% and healthy private payroll growth, average hourly earnings for all workers rose just 3.5% in May, the second-smallest gain in five years. Not surprisingly, at the recent FOMC meeting, the Fed held interest rates at 3.50%–3.75%, but both the statement and press conference skewed hawkish. The Federal Open Market Committee (FOMC) held rates steady in June but indicated an inclination to tighten monetary policy.

Yields were relatively low but moved higher as the quarter ended. Although the markets had higher yields, returns were slightly positive across all parts of the curve. The Barclays U.S. Aggregate posted a +0.66% return for the quarter, and the Barclays Intermediate Index was at +0.43%. The short end of the yield curve also saw small positive returns, with the 1-3 Year Government Index at +0.37%. At the truly short end of the yield curve, you also saw a positive return. The 1-Year T-Bill returned +0.68% for the quarter. As for yields, the 10-year Treasury yield ended the quarter at 4.44%, the 5-year Treasury yield ended at 4.19%, and the 2-year Treasury yield ended at 4.14%. (As of the end of March 2026, yields were higher by 25 to 65 basis points across the curve from year end. With the sharpest increase in the 2- and 3-year area.) Coupon income helped bond returns during the quarter.



### Fixed Income Markets - Looking Ahead

At the most recent FOMC meeting in June, the FOMC held rates steady. This was due in large part to inflation numbers continuing to move higher, which in turn seems to be due mainly to the U.S. and Israel’s incursion into Iran and the ongoing problem with the Strait of Hormuz.

The most notable occurrence that happened in the 2<sup>nd</sup> quarter was the energy shock. Now, as we go forward through the rest of 2026, this shock will undoubtedly leave a lasting mark on fixed-income markets. Although oil has retreated from its highs, investors are now demanding higher compensation due to heightened inflation risk. This risk is contributing to higher Treasury yields and strengthening the expectation that rates could remain elevated through 2026 and beyond. The silver lining in this is that bond yields are the most attractive they have been in years, but careful analysis on valuation, credit selection, and inflation will be more important going forward. As we move through the 3<sup>rd</sup> quarter, inflation will be the strongest influence on bond yields.

**For the rest of 2026, the Federal Reserve’s stance will continue to be crucial to both the Fixed Income and Equity markets. Current Fed Fund futures are predicting that the FOMC will not cut rates but possibly raise rates before the end of the year. The fixed income markets will probably see relatively higher yields through year end.**

## Equity

Another interesting quarter (Again, I am not sure interesting is the correct word). After a great 2025, the equity market, as measured by the S&P 500 Index, fell -4.35% in the 1<sup>st</sup> quarter, and then corrected and was up 15.2% in the 2<sup>nd</sup> quarter.

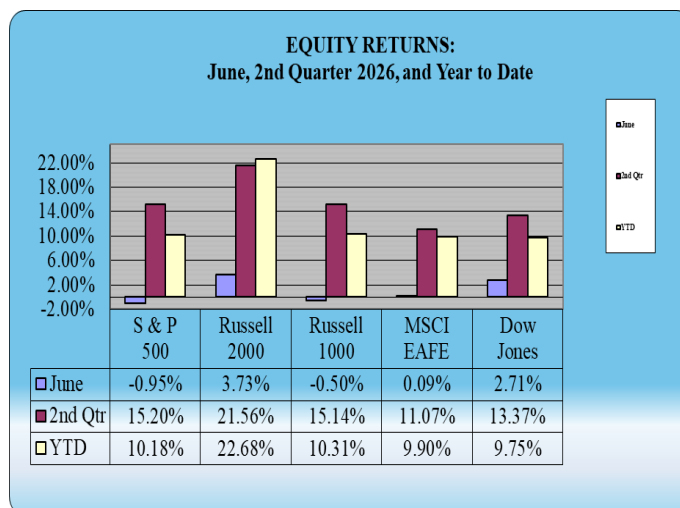
Stocks staged a strong recovery in the 2<sup>nd</sup> quarter, with the S&P 500 gaining +15.2% and finishing near record highs. The Middle East conflict and oil shock that started in the 1<sup>st</sup> quarter continued for most of 2<sup>nd</sup> quarter. As June was ending, oil prices fell as the two sides worked toward a ceasefire agreement. Meanwhile, investors' enthusiasm for artificial intelligence (AI) stocks returned, fueling a rally in semiconductor stocks. As companies reported strong Q1 earnings, the gains broadened beyond technology to include mid-and small-cap stocks. Even as stocks rallied, market conditions continued to evolve. The surprise spring rise in oil prices lifted inflation to a three-year high, and the Federal Reserve signaled a shift from rate cuts to rate hikes.

Equity markets traded higher throughout the quarter, with most of the positive return coming in April as stocks recovered from their late-March lows. This strength carried into May, with the S&P 500 posting a nine-week winning streak into month end. The index set a record high in early June before giving back some ground to finish up +15.2%, its strongest quarter since the 2<sup>nd</sup> quarter of 2020. International markets also advanced alongside U.S. stocks, with the same divide between tech stocks and the rest of the market.

For the quarter, stocks were strongly positive across all major US market segments, and non-US stocks followed suit.

All indexes were positive for the quarter. On the U.S. side, the Russell 2000 returned +21.56%, the S&P 500 Index was +15.20%, the Russell 1000 Index was +15.14%, and the Dow returned +13.37%. As mentioned, the international

markets also posted positive returns at +11.07% on the EAFE for the quarter.



### 3<sup>rd</sup> quarter 2026. The big questions? Inflation, Fed Policy, Job Data?

The equity markets ended the 2<sup>nd</sup> quarter near all-time highs as they rebounded from the volatility earlier in the year. The conflict behind that volatility isn't fully settled, but at least current oil prices have fallen back to pre-conflict levels. There are, however, still concerns that the oil spike will slow down the global economy. But the economy has held up so far with few signs of significant stress.

Despite the geopolitical turmoil and bouts of volatility, U.S. equity markets have continued to progress and the fundamentals behind that strength are unprecedented and possibly unsustainable. Of the companies that have reported first-quarter earnings, over 80% exceeded analyst's expectations, well above the historical averages. Full-year 2026 earnings estimates for the S&P 500 now stand at approximately \$326 per share, representing 19% growth compared with 2025. Analysts continue to project solid earnings growth in 2027 and 2028, driven in large part by the AI-related markets.

Studying the interaction between economic trends and stock market behavior, the second half of 2026 is presenting investors with a bit of a conundrum. The earnings backdrop is the strongest it has been in years and even though it is concentrated, it is not window dressing. The economy and labor market have remained somewhat resilient. However, the signal from the stock market is concealing a more complicated image: concentrated earnings growth, record household equity exposure, consumer sentiment at all-time lows, and a new Fed chair who may not feel the need to bail out the markets.

**As we proceed through the rest of 2026, the markets will probably remain focused on the factors that have historically driven long-term returns: growing earnings, durable cash flows, attractive valuations, and thoughtful diversification. That does not mean the focus will be in the correct place. The markets need to manage risk carefully in the coming months.**

## The Economy

### The Economy, and Inflation.

In the 2<sup>nd</sup> quarter of 2026, the U.S. economy continued to demonstrate continued resilience amid aggressive trade policies and increased geopolitical tensions. However, inflation moved in the opposite direction from the Fed's target, due directly because of the aforementioned geopolitical tensions.

The biggest surprise of the 2<sup>nd</sup> quarter came directly from the FOMC. In a swift pivot, expectations for further Fed easing were thoroughly squashed. Fed funds futures priced in a strong chance of not only one, but possibly two interest rate hikes before the end of 2026. Fed officials spent the quarter warning about above-target inflation and energy price shocks. The June FOMC meeting drove this point home under the new Fed chair, Kevin Warsh who offered no forward policy guidance and stressed total unanimity regarding price stability; Rates are staying higher for longer.

That said, the economic story of the first half was how well corporations were able to absorb economic challenges. Years of adapting to pandemic disruptions, supply chain bottlenecks, labor shortages, and inflationary spikes left many companies with stronger balance sheets, healthier margins, and a greater ability to adjust quickly. Those experiences have made businesses better prepared to navigate uncertainty and resilience that have shown up in recent earnings.

The labor market has provided an important source of stability due to favorable corporate fundamentals. While hiring has cooled from the rapid pace of prior years, widespread job losses have not materialized. The environment has evolved into one of low hiring and low firing.

During the 2<sup>nd</sup> quarter, the Federal Reserve again held rates steady. With inflation starting to rise, even with the signs of weakness in the labor market, the Fed opted to hold rates steady during the first 6 months of the year. Most of the voting Fed Governors are now more hawkish in light of inflation numbers.

## The Economy - Looking Ahead

### Inflation? Economic Growth? WHO KNOWS.

As we move into the 3<sup>rd</sup> quarter of 2026, economic growth is projected to moderate, with persistent inflation pressures.

Interest rate expectations have shifted meaningfully over the course of 2026. At the start of the year, many investors anticipated multiple rate cuts. Today, the conversation has changed. Under new Federal Reserve Chair Kevin Warsh, policymakers have emphasized their commitment to restoring price stability and ensuring inflation remains under control before considering any easing measures.

While a quarter-point move in either direction may not dramatically alter the economic landscape, the direction of policy matters. Inflation, energy prices, labor market conditions, and consumer spending will all continue to influence the Fed's decisions in the second half of the year. As we move forward the markets remain cautious on the economy. The unemployment rate as of May was 4.5% and June is projected to be relatively unchanged. Although there is anticipation that the unemployment rate will rise through the summer, the Federal Reserve's projections indicate a gradual cooling of the labor market, and anticipate that the rate will move lower.

Economic growth is rebounding, though slowly, but consumers are becoming strained by negative real wage growth, weak savings, and rising energy costs. Also, inflation remains sticky, with energy and artificial intelligence-driven capital expenditures adding to already elevated core services inflation. As we move forward consumer spending will remain the key driver.

Fed policy is still going to be fluid as we move through 2026. Not only do we have a weaker economy, and inflation ticking up, but a weakening job market, along with new Fed leadership. All this adds a layer of uncertainty to future Fed Policy. New Fed Chairman Kevin Warsh recently stated, "I think financial markets perform best when they react to incoming data," "I think the financial markets work less efficiently when they ask a question: 'How will the Federal Reserve react to that incoming information?'" There also is a new Fed Policy Statement; **The committee will deliver price stability.**

**For the remainder of 2026, the current expectations are that the FOMC will possibly raise rates before year end. However, the Fed still has the priority of inflation reduction and full employment (At least for now). The bigger problem is weak labor demand, high inflation, and slow economic growth. (This still smells like a recipe for Stagflation)**

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